S&P Global Ratings

Credit Conditions Emerging Markets Q4 2023

# High Interest Rates Sour The Mood

**Sept. 26, 2023**

*This report does not constitute a rating action*

## Key Takeaways

**Overall:** Weakening growth, high interest rates, and lingering cost pressures will likely test the relative stability in credit conditions across emerging markets (EMs). Economic resilience, which helped issuers weather the effects of higher costs, will likely fade over the coming quarters. We now expect subdued economic growth and high interest rates, as elevated prices linger.

**Risks:** The balance of risks for EM credit conditions remains on the downside, given an extended period of high interest rates, the potential for further inflationary pressures, and weaker-than-expected growth in the largest economies. Persistently high rates will likely keep funding costlier for all EM issuers, especially for the lower-rated ones. For many issuers, the new interest-rate environment could be unsustainable, leading to defaults and bankruptcies. Debt refinancing will likely complicate the picture, as the global maturity wall is building up with considerable peaks in 2025.

**Credit:** Falling inflation and economic resilience have brought some stability to EM credit ratings, and the pace of rating actions has recently slowed down, although the number of positive actions has been very limited. The negative bias remains unchanged and below historical averages. Credit quality across key EMs will likely be strained as risks unfold.

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, EM, North America, and Europe). Discussions center on identifying credit risks and their potential rating impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the EM credit conditions committee on Sept. 20, 2023.

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# Top EM Risks

### Lingering tight financing conditions amid higher interest rates

| Risk level | Moderate | Elevated | **High** | Very high | Risk trend | Improving | **Unchanged** | Worsening |
|---|---|---|---|---|---|---|---|---|

Some EMs have begun easing their monetary policy, while others have paused policy rate hikes. Most EM central banks remain cautious about inflation trends as key commodity prices such as oil and food remain high, and pressure persists. Conditions in the U.S., with a resilient economy and labor market, could prompt further interest-rate hikes. These factors will likely prevent a more decisive monetary easing across EMs. While our expectation is that as inflation wanes and policy rates should gradually fall beginning in 2024, we don't expect them to go back to low levels of the past years. While financing conditions may improve as economic trends stabilize, persistently high rates will probably keep funding costs elevated for all EM issuers, especially for the lower-rated ones. For many issuers, the new interest-rate environment could be unsustainable, leading to defaults and bankruptcies.

### Weakening economy and lasting cost pressures squeeze corporate margins

| Risk level | Moderate | Elevated | **High** | Very high | Risk trend | Improving | **Unchanged** | Worsening |
|---|---|---|---|---|---|---|---|---|

EM economies have remained largely resilient despite the quick monetary tightening; 2023 will certainly mark an economic downturn, but better than initial expectations. Economic resilience, especially across the services sector, has helped corporations remain afloat. We expect subdued economic growth in 2024, consequently, risks for corporations remain relevant. On the one hand, persistently high food and fuel prices will likely raise the pressure on labor costs over the coming months, while energy prices will continue weighing on operational costs. At the same time, we expect borrowing costs will remain high, unbearable for low-rated issuers. Sooner or later, EM corporations will need to refinance at higher costs, likely leading credit deterioration.

### A sharper-than-expected downturn in advanced economies impedes global trade

| Risk level | Moderate | Elevated | **High** | Very high | Risk trend | Improving | **Unchanged** | Worsening |
|---|---|---|---|---|---|---|---|---|

Key global economic growth engines are beginning to show some weakness, despite resilient U.S. economy. On the one hand, China continues struggling with its property sector, along with weakening confidence and high debt levels. In Europe, rising interest rates are slowly weighing on growth, while inflation has taken a toll on consumers. We expect U.S. economy will cool down in 2024, but recession risks are considerable as rising interest rates continue straining financing conditions for key sectors of the economy. Given the very rapid monetary tightening and persistently high inflation in advanced economies, the risk for monetary overshooting and an economic hard landing is meaningful. Uneven economic activity is dragging down global trade, a problem for EM exporters. A deeper-than-expected recession could hurt key EM exporters by reducing trade volumes, portfolio flows, and foreign direct investment (FDI). Slower economic activity could imperil their corporate sectors' fundamentals and banks' asset quality. Unemployment could rise, hitting households already burdened by inflation.

### Geopolitical tensions and difficult domestic socio-political conditions erode credit fundamentals

| Risk level | Moderate | Elevated | **High** | Very high | Risk trend | Improving | **Unchanged** | Worsening |
|---|---|---|---|---|---|---|---|---|

The Russia-Ukraine conflict will drag into 2024. Ongoing hostilities, and both countries' large role in key commodity markets, are causing energy and food prices to rise, which could undermine confidence and growth in EMs. Given the uncertainty and unpredictable nature of decision-making in Russia, tail risks remain high even if the macro credit impact has, so far, proven much less damaging than was feared last year. Russia's search for allies could raise tensions among some key EMs and the U.S., undermining their economic prospects. In addition, domestic political landscape across many EMs remains complicated. Overall fragile institutions, along with fragmentation and polarization at the legislative level, are making it difficult to carry out relevant reforms to support long-term growth. The disenchantment with politicians and democracy is growing, which could in the long run erode policy predictability and sovereigns' ability to deal with fiscal challenges and to support economic growth.

### China's recovery momentum falters substantially in the wake of prolonged weakness in business and household confidence

| Risk level | Moderate | Elevated | **High** | Very high | Risk trend | Improving | **Unchanged** | Worsening |
|---|---|---|---|---|---|---|---|---|

China's economic growth momentum had stalled amid weak domestic household and business confidence and subdued global demand. Persistent stresses across the real estate sector, especially in Tier 3- and 4- cities, could hit liquidity profiles of property developers and real-estate dependent sectors (such as engineering and construction, and local and regional governments). Weak land sales could intensify fiscal constraints within some local governments, limiting their ability to support the financing needs of state-owned enterprises and some highly indebted local government financing vehicles (LGFVs), raising the specter of defaults. Particularly, the way large corporate failures are handled may have unintended consequences, such as contagion fueled by drops in confidence. In addition, the risk of insufficient central government intervention to spur confidence could further exacerbate credit stresses, spilling into banks' loan books. Meanwhile, China's very high corporate leverage could further derail economic growth if financiers curtail lending appetite. China's sluggish economic growth could spill over to the region's economies and other EMs reliant on China for tourism, exports, imports (product components), finance, or the supply chain.

## Secular risks

### Climate change and rising adaptation costs

| **Risk level** | Moderate | **Elevated** | High | Very high | **Risk trend** | Improving | Unchanged | **Worsening** |
|---|---|---|---|---|---|---|---|---|

Larger, more frequent natural disasters increase physical risks for public- and private-sector entities and threaten to disrupt supply chains such as for agriculture and food production in some EMs. This year, El Niño phenomenon can increase risks across many EMs due to heightened likelihood of rainfall levels and floods in South America, while severe drought might hit countries in Southeast Asia and Africa's western and southern regions. Past occurrences of this phenomenon have caused food prices to jump and other supply shocks.

Source: S&P Global Ratings.
**Risk levels** may be classified as very low, moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high.
**Risk trend** reflects our current view about whether the risk level could increase or decrease over the next 12 months.

# Regional Credit Conditions

## Waning Resilience

**Weakening growth, high interest rates, and lingering cost pressures will likely test relative stability in EM credit conditions.** Economic resilience that helped issuers weather the effects of higher costs will likely fade over the coming quarters. We now expect subdued economic growth, and interest rates to remain elevated, as high prices linger. We anticipate monetary easing for the rest of the year, more so in 2024. However terminal policy rates will likely stand well above the last decade's averages. Debt refinancing will likely complicate the picture, as the global maturity wall is building up with considerable high levels coming up in 2025 (see chart 1). Issuer competition for liquidity will be fierce in the coming two years; EM issuers will likely be at a disadvantage as investors will probably ask for additional returns, given higher country risk premia than those in advanced economies.

## Resurfacing Inflationary Pressures

**Corporate profits have been resilient to rising costs, but strains remain.** Inflation is slowing down across all EMs, but the recent rise in oil and food prices could amplify inflationary pressures (see chart 2). Oil prices recently have spiked, considering strong demand and especially because of Saudi Arabia's and Russia's production cuts. We expect that the relative strength in oil prices will last until the end of the year and gradually fade into 2024 as production in the U.S., Brazil, and Iran increases and demand declines. On the other hand, food prices could pivot upwards, if there's pass-through from fuel prices to freight costs and fertilizers, and especially because of droughts and the effects of El Niño phenomenon in many countries that are key food exporters (including cereals, meat, dairy, vegetable oils, and sugar). Since corporations have been passing through cost increase to prices, households have been taking the biggest hit so far. In this regard, strong labor markets and savings have acted to dilute the effect, but these conditions might change over the coming months. Growing hardships for EM households will make it more difficult for corporations to continue increasing their prices to protect their margins. Moreover, these conditions could result in strikes and rising labor costs as workers demand higher salaries.

**EM sovereigns will also struggle amid continued inflationary strains.** EM sovereign debt jumped during the pandemic, and fiscal stress has risen as many countries have provided fuel and food subsidies to shield low-income households from increasing prices. For most EM sovereigns, withdrawing these subsidies will prove difficult given a complex, polarized political landscape, and considering populations' disenchantment with politicians, heightening the prospect of social unrest. Sustained fiscal stress and growing financing costs will act as a drag on EM sovereigns over the coming quarters.

**EM banks will likely remain resilient, but asset quality could dent profitability.** High interest rates usually benefit banks in the form of higher net interest margins. However, currently tough conditions, including subdued economic activity, will likely weigh on credit growth and asset quality. Overall, we expect banks will remain resilient thanks to sound capitalization, liquidity, and profitability, but the latter will likely take a hit from weakening asset quality, given high interest rates and households' eroding payment capacity as increased prices bite into disposable income.

## Considerable Obstacles To Monetary Easing

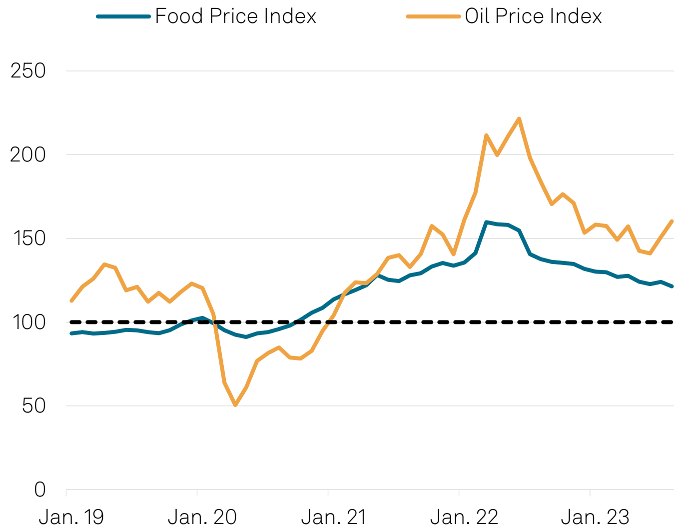
**Many EMs have already begun monetary easing, and we expect this trend will continue in 2024, but terminal policy rates will likely remain high.** We expect EM central banks to remain cautious about monetary easing. On the one hand, as we have mentioned, inflationary pressures could resurface. On the other hand, stubbornly high inflation, economic resilience, and labor market strength in the U.S. will likely keep the Federal Reserve hawkish, and while interest-rate hikes may be at or near their peak, we expect currently high rates to linger well into 2024. This will

present difficulties for EM central banks, as premature monetary easing could lead to capital outflows and foreign-currency pressures.

Chart 1

### Energy and food prices are still under pressure

Index = 100

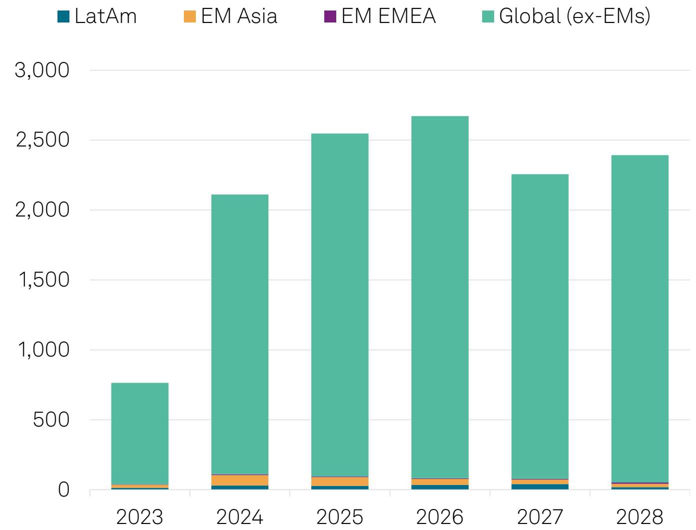



Sources: Refinitiv for Brent oil prices (Jan 2019=100), Food and Agricultural Organization of the United Nations for the Food Price Index (2014-2016=100), and S&P Global Ratings.

Chart 2

### Global maturity wall is building up

Financial and nonfinancial corporates (bil. US$)

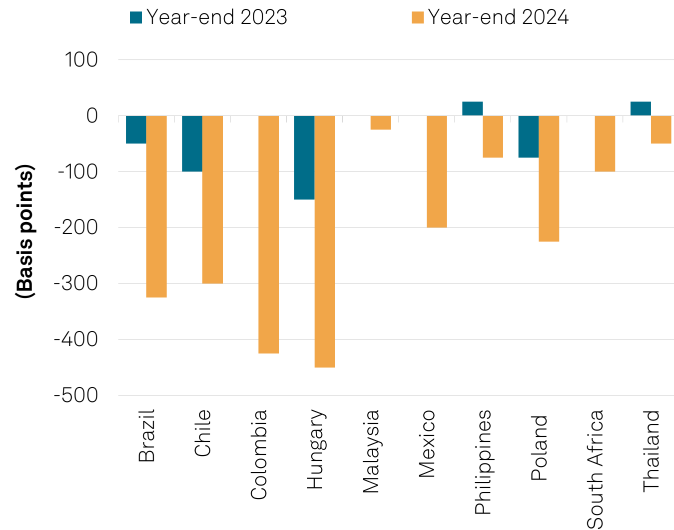



Foreign currencies are converted to U.S. dollars on the respective reporting period date. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Source: S&P Global Ratings.

Chart 3

### We are expecting EM policy rates to go down...

Forecasts for policy rate cuts from current policy rates (bps)

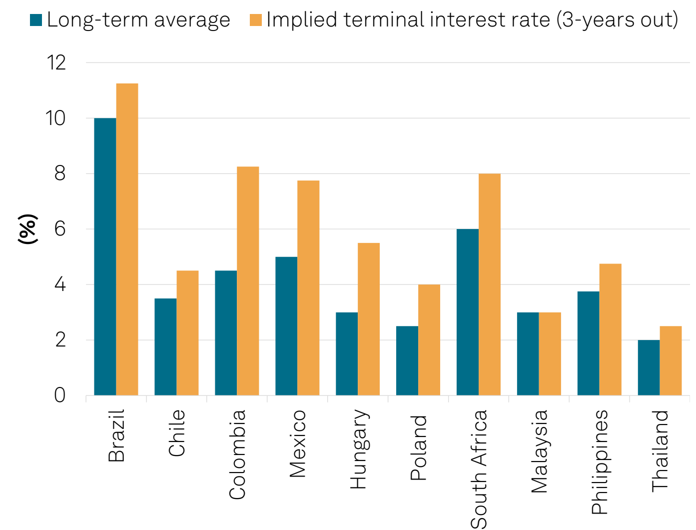



Data as of Sept. 25, 2023. bps--Basis points. Sources: Domestic monetary authorities, S&P Global Ratings.

Chart 4

### ...but terminal rates will likely be high

Benchmark policy interest rates (%)




Data as of Sept. 21, 2023. Note: Implied interest rate changes are based on interest rate swaps. Long-term averages represent 2010-2019. Sources: Haver Analytics, S&P Global Ratings.

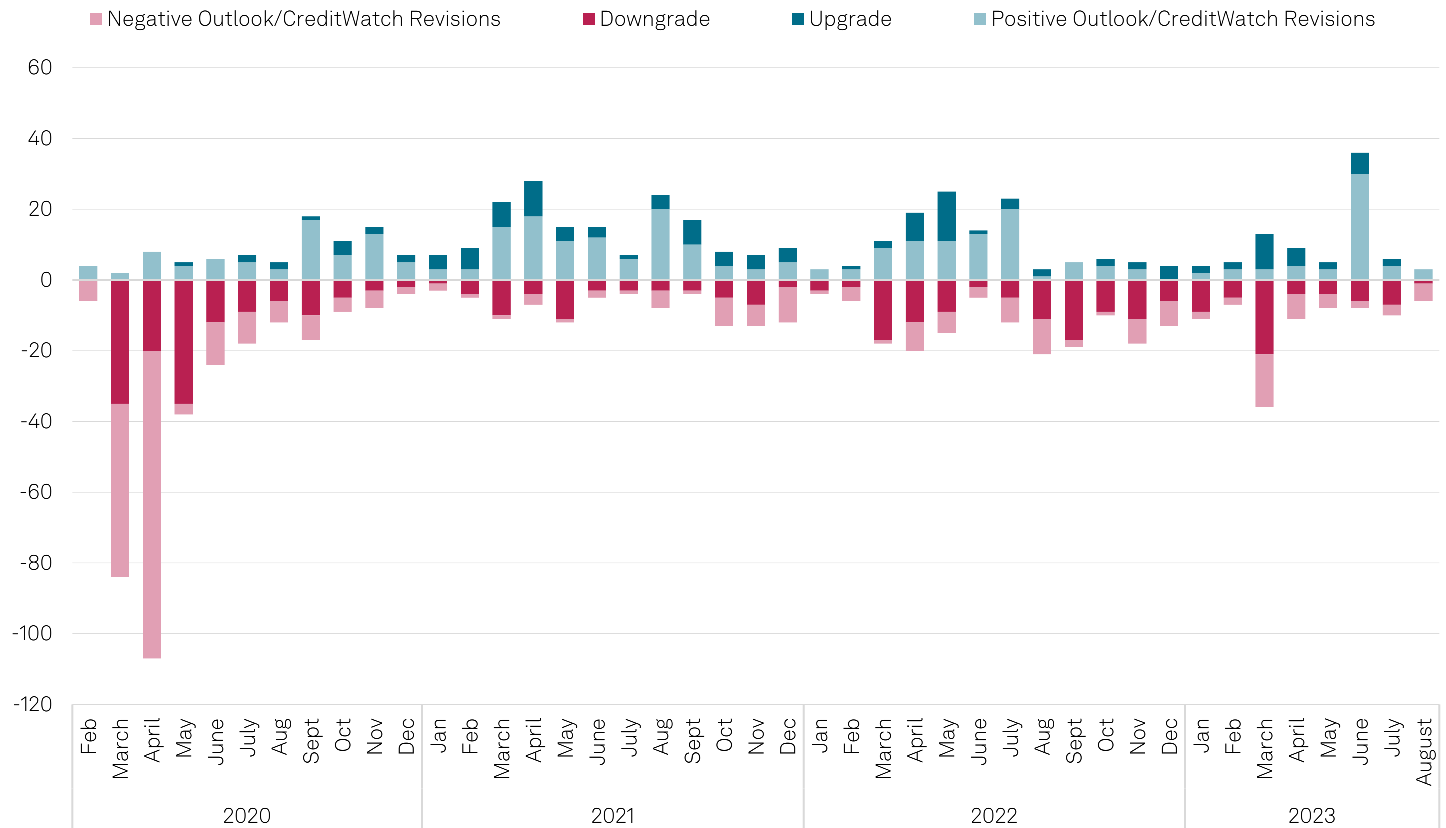
## Ongoing Strains In EM Credit Quality

Falling inflation and economic resilience have brought some stability to EM credit ratings, and the pace of rating actions has recently slowed (although the number of positive rating actions has been very limited). The negative bias remains unchanged and below historical averages. Credit quality across key EMs will likely be strained as risks unfold (see chart 5).

Chart 5

Credit quality across key EMs will likely be strained as risks unfold

Number of rating actions in key EMs




Data as of Aug. 31, 2023, and includes financial and nonfinancial corporates, including sovereigns--Argentina, Brazil, Chile, Colombia, Mexico, Peru, India, Indonesia, Malaysia, Thailand, Philippines, Vietnam, Hungary, Poland, Saudi Arabia, South Africa, Turkiye, and Greater China. Source: S&P Global Ratings Credit Research & Insights.

# Macroeconomic Conditions

## Recent Domestic Demand Resilience Will Confront Structurally High Interest Rates

- Domestic demand continues to surprise to the upside in most EMs. The impact of tight monetary policy hasn't yet imperiled activity significantly, but we expect that to have a more noticeable impact in the coming quarters.
- Subdued external demand in the U.S., Europe, and China will weaken export profiles of most EMs in 2024.
- Structurally high interest rates, in the absence of structurally higher growth prospects, will depress investment in EMs, constraining productivity growth.
- On the flip side, high real interest rates would allow most EMs greater ability to ease monetary policy in the next economic downturn.

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(Editor's Note: The views expressed in this section are those of S&P Global Ratings' economics team. While these views can help to inform the rating process, sovereign and other ratings are based on the decisions of ratings committees, exercising their analytical judgment in accordance with publicly available ratings criteria.)

**We continue to expect most EMs to grow below trend for the remainder of 2023 and into 2024.** The latest GDP reports (Q2 2023) were in many cases stronger than expected, but because of factors that we expect to be transitory across most EMs. Notably, domestic demand continues to benefit from improving labor dynamics, various degrees of fiscal support, and in some cases, excess private-sector savings carried over since the pandemic-related downturn. This has cushioned the impact of tight monetary policy on domestic demand. As these dynamics unwind in the coming quarters, we expect high interest rates to have a more noticeable impact on activity.

Table 1

### Summary of GDP growth forecasts

Real GDP growth (%)

| | 2020 | 2021 | 2022 | 2023f | 2024f | 2025f | 2026f |
|---|---|---|---|---|---|---|---|
| Argentina | (9.9) | 10.7 | 5.0 | (3.5) | (1.0) | 2.0 | 2.1 |
| Brazil | (3.6) | 5.3 | 3.0 | 2.9 | 1.2 | 1.8 | 2.0 |
| Chile | (6.4) | 11.9 | 2.5 | 0.0 | 2.0 | 2.8 | 2.9 |
| Colombia | (7.3) | 11.0 | 7.3 | 1.4 | 1.9 | 2.8 | 3.0 |
| Mexico | (8.8) | 6.1 | 3.9 | 3.0 | 1.7 | 2.0 | 2.1 |
| Peru | (11.1) | 13.5 | 2.7 | 0.9 | 2.4 | 2.8 | 3.0 |
| China | 2.2 | 8.5 | 3.0 | 4.8 | 4.4 | 5.0 | 4.5 |
| India | (5.8) | 9.1 | 7.2 | 6.0 | 6.9 | 6.9 | 7.0 |
| Indonesia | (2.1) | 3.7 | 5.3 | 5.0 | 4.9 | 5.0 | 5.1 |
| Malaysia | (5.5) | 3.3 | 8.7 | 4.0 | 4.5 | 4.5 | 4.4 |
| Philippines | (9.5) | 5.7 | 7.6 | 5.2 | 6.1 | 6.2 | 6.4 |
| Thailand | (6.1) | 1.5 | 2.6 | 2.8 | 3.5 | 3.2 | 3.2 |
| Vietnam | 2.9 | 2.6 | 8.0 | 4.5 | 6.5 | 6.8 | 6.6 |
| Hungary | (4.7) | 7.2 | 4.6 | (0.3) | 2.8 | 2.8 | 2.8 |

Table 1

Summary of GDP growth forecasts (cont'd)

| | 2020 | 2021 | 2022 | 2023f | 2024f | 2025f | 2026f |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| Poland | (2.0) | 6.8 | 5.5 | 0.7 | 3.0 | 2.9 | 2.9 |
| Turkiye | 1.7 | 11.8 | 5.3 | 3.5 | 2.3 | 2.9 | 2.9 |
| Saudi Arabia | (4.3) | 3.9 | 8.7 | 0.4 | 3.5 | 3.4 | 3.3 |
| South Africa | (6.0) | 4.7 | 1.9 | 0.8 | 1.7 | 1.7 | 1.7 |
| | | | | | | | |
| EM-18 | (1.8) | 7.7 | 4.5 | 4.1 | 4.1 | 4.6 | 4.4 |
| EM-17 (excludes China) | (4.7) | 7.2 | 5.7 | 3.5 | 3.9 | 4.3 | 4.3 |
| LatAm | (6.9) | 7.6 | 3.9 | 1.6 | 1.2 | 2.1 | 2.2 |
| EM Southeast Asia | (3.7) | 3.4 | 5.9 | 4.5 | 5.0 | 5.0 | 5.0 |
| EM EMEA | (1.4) | 8.2 | 5.7 | 1.9 | 2.6 | 2.9 | 2.9 |

f--Forecast. Source: S&P Global Ratings economists.

**Since our previous quarterly update, the probability of a recession in the U.S. starting in the next 12 months has moderated but remains elevated**, with important implications for several EMs, especially those in LatAm. Mexico, in particular, has benefited from continued U.S. consumer strength, but we expect demand to soften in the coming quarters. The U.S. consumer is facing several headwinds that will be more apparent in the coming quarters--the depletion of excess household savings, the restart of student-loan repayments in October, and continued high interest rates.

**The eurozone's weakness is spilling over to several EMs, and we expect this to remain the case in the coming quarters**. Hungary and Poland, in particular, have seen activity worsen; real GDP declined in both economies in the second quarter, given the contraction in exports. Manufacturing production has also deteriorated and will keep GDP growth subdued into 2024.

**We lowered our growth forecast for China to 4.8% in 2023 and to 4.4% in 2024, given persistent weakness in the property sector and lower consumer confidence**. Policymakers are unlikely to use significant stimulus to prop the economy, since they still prioritize financial stability. EM Asia is most exposed to consumption in China, but the slowdown is centered around domestic activity, which will mitigate the impact. Several economies in that region, such as Thailand, Vietnam, the Philippines, and Malaysia, have been benefiting from the gradual revival of outbound Chinese tourism, which could contract from weaker consumer confidence in China.

**The process of disinflation across most EMs continues, although this will likely turn into a bumpy path in the coming quarters**. The median consumer price inflation reached 5.3% year on year in August 2023 after peaking at 8.2% in August 2022. However, the renewed rise in energy prices is likely to slow the pace of disinflation in the coming months. Furthermore, core inflation, which is running above headline inflation across about half of the EMs we cover, could increase early next year because of a likely higher-than-normal rise in wages.

**Several EMs started easing monetary policy in Q3 2023; we expect more rate cuts in the coming months, but central banks will take it slow.** The central banks of Chile, Brazil, Poland, and Peru started to reduce their benchmark policy rates during this period. China and Hungary have also been easing policy by adjusting several of their monetary instruments. We expect most major EM central banks, which haven't yet lowered interest rates, to start doing so in 2024. However, given the uncertainty over the trajectory of inflation and interest-rate normalization by major central banks around the globe, we expect EM central banks to err on the side of caution by taking a gradual approach to rate cuts.

**Structurally higher interest rates, in the absence of structurally higher growth expectations, will constrain investment growth.** As of the first half of 2023, fixed investment, as a share of GDP in the median EM, is one percentage point lower than it was before the pandemic. The higher average cost of capital, as interest rates are likely to remain elevated for a longer time, in the absence of greater average expected returns (growth), justifying higher investment growth will be difficult.

**That said, high real interest rates would allow most EMs greater room to ease monetary policy in the next economic downturn.** The median real interest rate across major EMs that we cover is about 125 basis points (bps) above its 10-year average.

## Regional Growth Forecasts

**LatAm: We have increased our 2023 real GDP growth forecast for the region to 1.6% from 1.1% previously, but have lowered our 2024 projection to 1.2% from 1.5%.** The main upward growth revisions are for Brazil and Mexico. We now expect the Brazilian economy to expand 2.9% this year thanks to strong agricultural production and the continued positive impact of fiscal stimulus measures on household spending. We expect growth to slow to 1.2% as the impact of both factors will abate. In Mexico, we now expect a 3.0% growth this year, up from 1.8% previously, as a result of the following factors:

- Strong consumption (stemming from robust remittances);
- Resilient manufacturing output (because of robust U.S. demand, and to a lesser extent, nearshoring-related activity); and
- A sharp uptick in public nonresidential investment.

We expect growth in Mexico to cool to 1.7% in 2024, mainly because of weaker U.S. demand. We lowered our growth forecasts for Argentina, Peru, Colombia, and Chile. In these countries, sequential GDP growth contracted in the second quarter. The outlook for Argentina, in particular, is highly uncertain due to the upcoming presidential election and its aftermath on economic policy. We currently expect GDP to decline in 2023 and 2024.

**EM EMEA: We lowered our 2023 and 2024 GDP growth projections for Central and Eastern Europe (CEE) economies, following a contraction in GDP in the second quarter in most cases**, and the expected continued weakness in exports to advanced European economies. Meanwhile, upside surprises to second-quarter GDP growth in Saudi Arabia, South Africa, and Turkiye prompted us to increase our 2023 growth projections for those countries. In Saudi Arabia, we expect a sharp GDP deceleration in the second half of the year due to ongoing oil production cuts. Inflation and GDP forecasts for South Africa remain subject to significant risks, given ongoing risks of load-shedding. The current resilience in Turkiye's domestic demand will start to fade in the coming quarters, due to the rapid tightening in monetary conditions, given the central bank's ongoing economic orthodox policy.

**EM Asia: We lowered our 2023 GDP growth forecast by 20 bps to 4.5% mainly because of the decline in global goods trade.** We kept our 2024 GDP growth forecast unchanged at 5.0%. Domestic demand has prevented a sharper slowdown in growth in most EM Asian economies, thanks to improving labor markets. Continued tight monetary policy settings and fiscal consolidation will dampen demand growth next year. Inflation rates didn't rise as sharply in the region as in the rest of the world. Part of the reason is that several economies regulate energy prices, which prevented a spike in energy price inflation. Core inflation only rose gradually because inflation expectations remained anchored. We expect central banks to hold off cutting rates through the rest of the year and start doing so in 2024.

## Risks To Baseline Growth

**The risk that the recent increase in energy prices, or the potential impact of El Niño on food prices, interrupt the ongoing process of disinflation is high.** This would prompt the resumption of interest-rate hikes and deepen the expected slowing of domestic demand. The risk that the

U.S. economy tips from our current baseline of a "soft-landing" into recession is elevated. This would have pernicious implications for the global economy, especially for EMs that share strong economic ties with the U.S., such as several LatAm countries. Alternatively, a stronger-than-expected U.S. economy, while a generally favorable development for EMs, could in the short-term cause interest rates and the dollar to rise (increasing inflation through foreign-exchange pass-through effects). Downside risks to China's economy have risen since the last quarter, but most of the spillover effect currently seems to be limited to EM Asian economies. Finally, a heavy and divisive electoral agenda in several EMs this year and next could take a toll on investment, owing to the lack of policy visibility.

# Financing Conditions

## High Interest Rates Weigh On Financing Conditions

- Higher-for-longer U.S. interest rates could heighten outflows, pressurizing currency values and slowing the pace of domestic rate cuts.
- While primary markets are open, we expect funding costs to stay high, terms to shorten, and issuance volumes to remain subdued, particularly for lower-rated entities.
- LatAm remains the pressure point--responsible for the biggest strain in terms of defaults and downgrades and the largest percentage of speculative-grade maturities through 2024.

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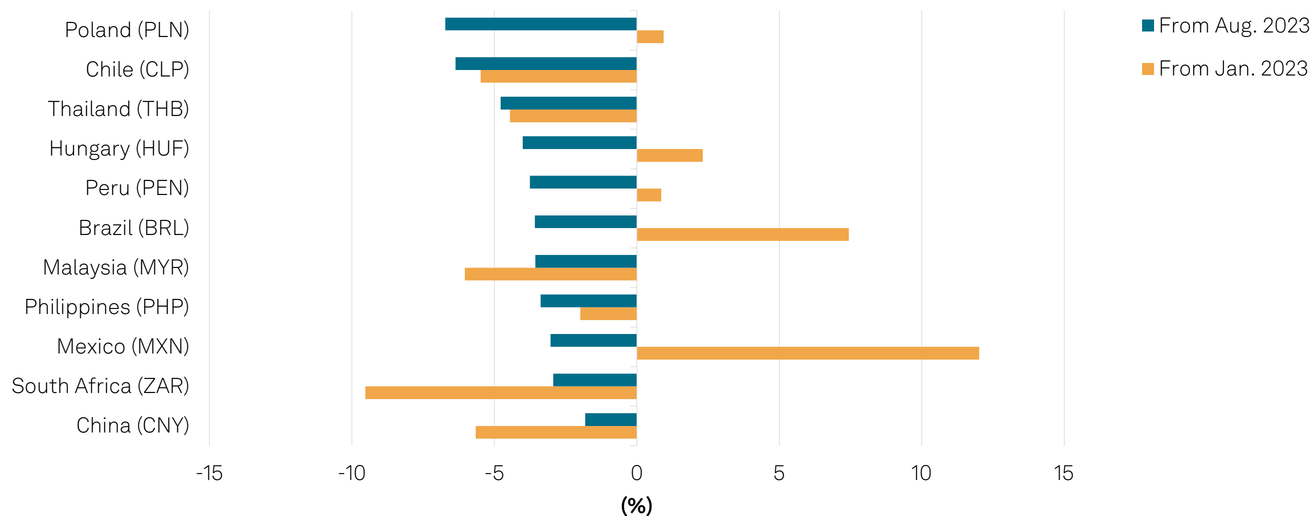
**The prevailing higher-for-longer narrative poses increasing risks to EMs.** U.S. economic resilience and sticky inflation have pushed out talk of rate cuts, raised the possibility of further hikes, and contributed to the dollar's resurgence. This raises the prospect of investment outflows and currency depreciations, which could complicate and exacerbate monetary policy easing, which has already begun in several EM countries, such as Chile, Brazil, Peru and Poland. Investment outflows in August were the highest in 12 months, but this was primarily attributable to outflows from China, and to a much lesser extent, LatAm. Furthermore, some EM currencies have recently depreciated against a strong dollar (chart 6) which could weigh on trade and external financing costs. In this context it is important to note that 81% of rated corporate debt with a global scale rating maturing through 2027 is denominated in U.S. dollars.

Chart 6

### Watch out for currency depreciation across EMs




Data as of Sept. 26, 2023. Source: S&P Capital IQ Pro.

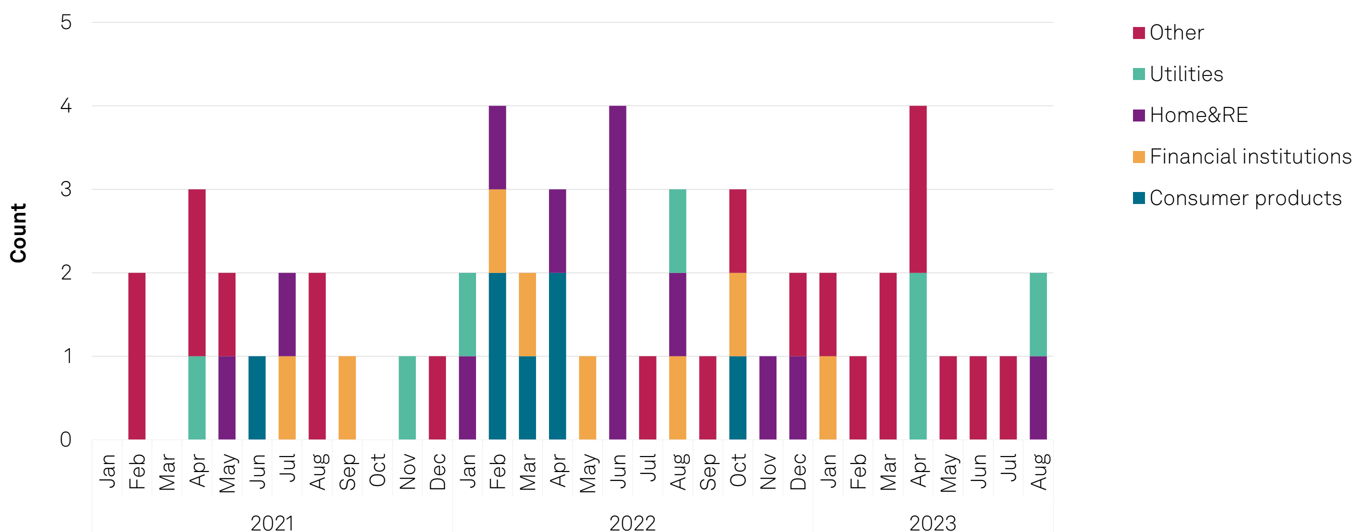
**High funding costs likely to keep issuance subdued.** Corporate bond issuance (excluding in China) dropped further in August, after disappointing volumes in June and July. With only four months to the end of 2023, issuance lags substantially prior-year levels, with LatAm, EM Asia, and EEMEA only around 43%, 50%, and 80% of the 2017-22 average issuance, respectively. As financing costs remain elevated with EM corporate yields at about 7%, many issuers with access to markets are focusing on the short end of the curve with (around 79% of total registered issuance year to date carrying a maturity of five years or less). However, not all issuers can access markets even at the short end, and speculative-grade debt issuance has been meager in the last two months. Despite the challenges in external markets, domestic markets remain open, especially in EM Asia (excluding China), with banks providing credit lines to some corporations.

**Pockets of near-term refinancing risk amid a more manageable picture.** While the maturity wall will peak in 2024 in volume terms, it mostly consists of debt of investment-grade corporations, which account for 80% of rated financial and nonfinancial corporate maturities. But with muted issuance volumes and higher financing costs, the refinancing risk remains most acute for lower-rated issuers. While rated speculative-grade maturities are set to peak in 2026, a meaningful share (15%) is due in 2024, mostly among Brazilian issuers and primarily in the oil and gas, and financial institutions sectors.

**LatAm, particularly Brazil, is bearing the brunt of negative rating actions and tighter financing conditions.** As of August 31, most EM corporate defaults to date in 2023 occurred among LatAm issuers, with eight out of 14 located in Brazil alone and most of these defaults stemmed from distressed debt exchanges and missed payments. Furthermore, defaults in 2023 have to date occurred across a broad range of sectors, reflecting the wider operating and financing challenges across the region. This is in contrast to 2022, during which the real estate and consumer products issuers led the tally (chart 7). In addition, while the downgrade pace has slowed in the last three months, the negative bias--an indicator of future rating trends--remains elevated in EEMEA and LatAm at 24% and 21%, respectively, with the transportation and chemical, packaging and environmental services sectors as most at risk.

Chart 7

Defaults by sector




Data as of August 31, 2023. Source: S&P Global Ratings Credit Research & Insights.

Notes: Benchmark yields, maturities, and rating performance data refer to our EM-18 classification. LatAm: Argentina, Brazil, Chile, Colombia, Peru, and Mexico. EM Asia: India, Indonesia, Malaysia, Thailand, Philippines, and Vietnam. EM EMEA: Hungary, Poland, Saudi Arabia, South Africa, and Turkiye. Greater China: China, Hong Kong, Macau, Taiwan, and Red Chip companies (issuers headquartered in Greater China but incorporated elsewhere).

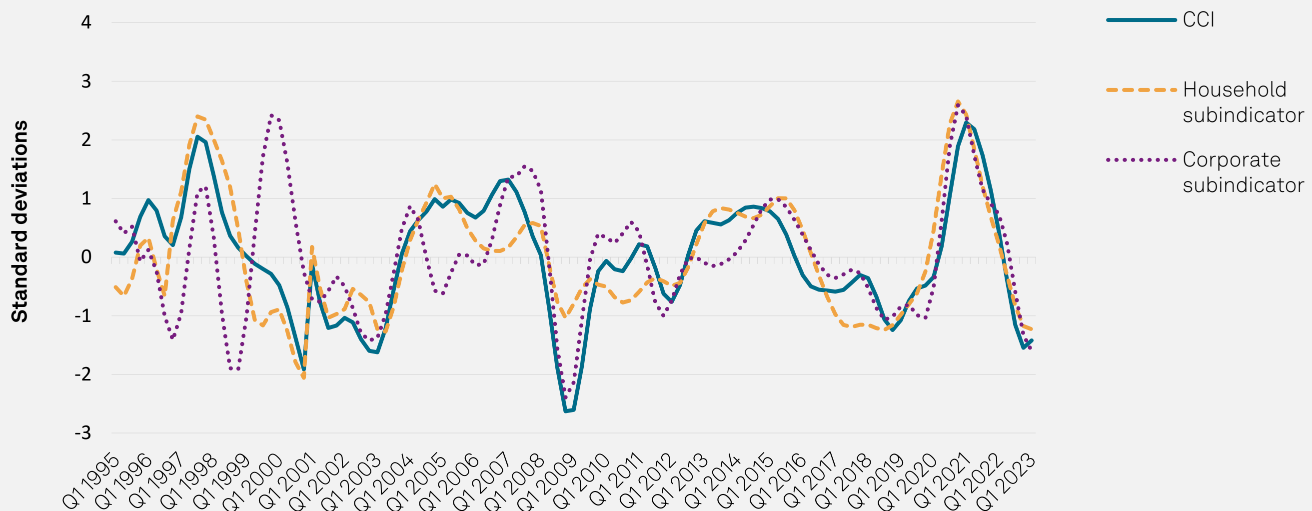
## Credit Cycle Indicator

### Signs of decreasing momentum for the credit correction

In the four quarters after the first quarter of 2020, the EM ex-China Credit Cycle Indicator (CCI) trended upward, reaching a peak of 2.3 standard deviations in the first quarter of 2021. This suggests potentially greater credit stress from late 2022 through all of 2023 (see chart 8). The aggregate indicator seems to be near an inflection point, with some countries--such as Mexico, India, and South Africa--appearing to have reached their CCI troughs and with many countries close to their own troughs; credit conditions in very few countries (namely, Chile and Poland) are expected to ease further in the next six to 10 quarters. For more details about our proprietary CCI, see "White Paper: Introducing Our Credit Cycle Indicator," published June 27, 2022.

Chart 8

EM Credit Cycle Indicator (excluding China) may be close to a trough




Note: We view the Credit Cycle Indicator (CCI) as a leading indicator for potential credit stress outcomes. The CCI period ends in Q1 2023. Household and corporate subindicators were created by taking the weights in the overall CCI and rescaling such that the subcomponents' weights in the subindicator sum to 1. EM data in this chart includes data from Brazil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Poland, South Africa, Thailand, and Turkiye. Sources: Bank for International Settlements, Bloomberg, and S&P Global Ratings.

**Corporates.** The corporate subindicator overall continued to trend downward as corporate debt fell in the first quarter of this year, particularly in Latin American countries. This is mainly driven by high funding costs--especially in international markets and notably for companies at the lower end of the rating spectrum. Equity prices decreased across the board (except in Mexico and South Africa), signaling that protracted macroeconomic strains are hurting corporate valuations. Sustained inflation, along with high interest rates and a slowing economy, will likely keep credit pressure on corporates.

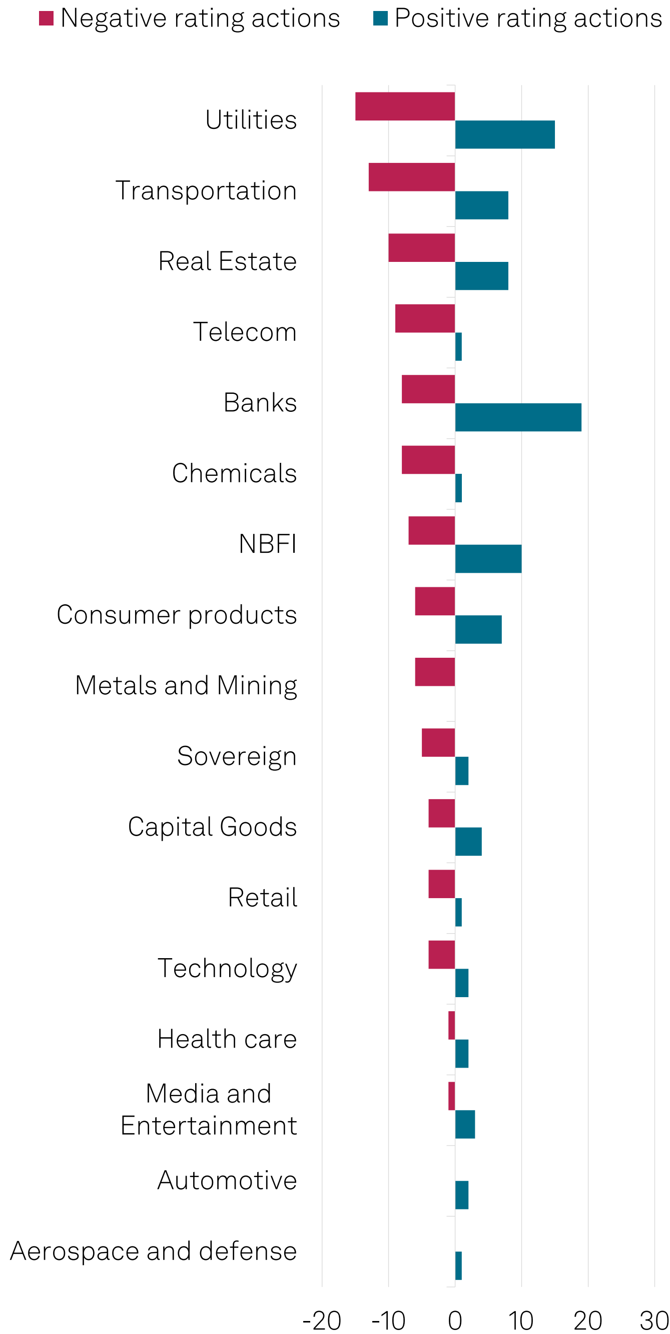
**Households.** The household subindicator remained at the previous quarterly level of -1.2 standard deviations, tighter than its corporate counterpart. Household borrowing mildly decreased in EM Asia countries (except India), but it didn't fall in EM EMEA and Latin America, where inflation is biting the most. Property prices were mixed but tilted to the downside, signaling high mortgage rates' continued strain on housing deals across EM.

# Sector Trends

Chart 9

### EM rating actions by sector

Number of rating actions, year to date

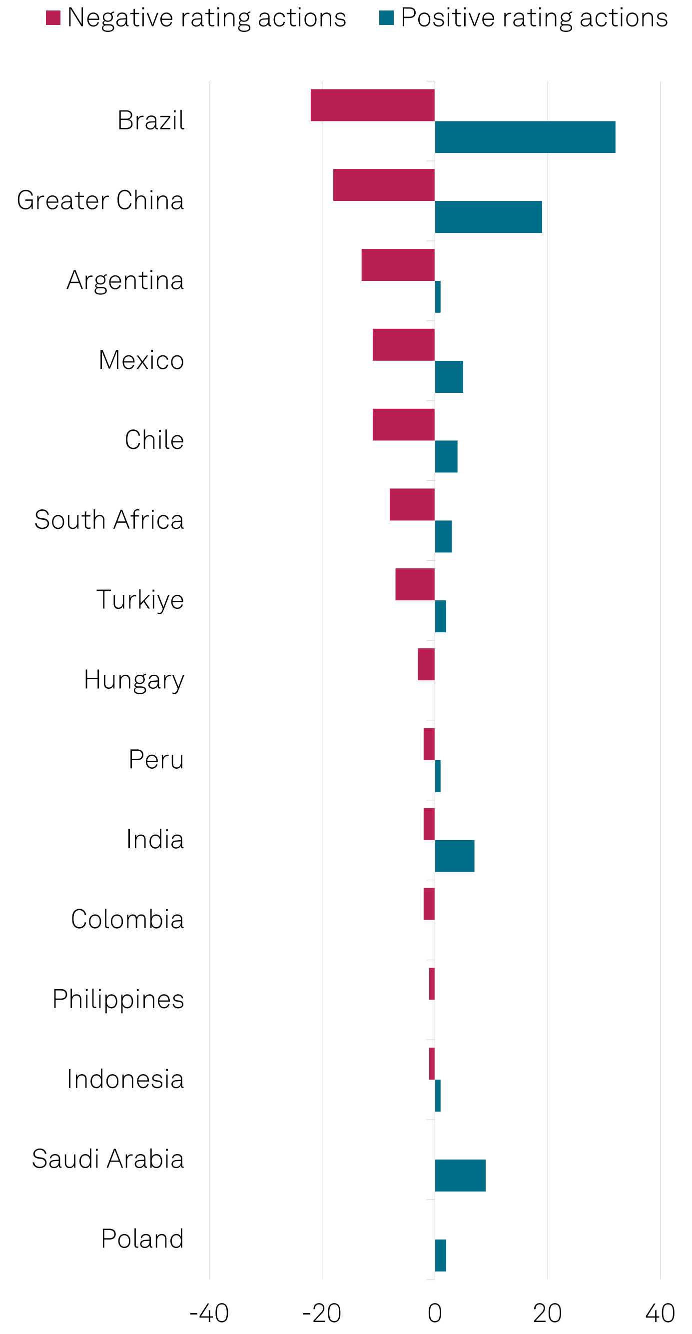



Data as of Sept.15, 2023. Source: S&P Global Ratings Credit Research & Insights.

Chart 10

### EM rating actions by country

Number of rating actions, year to date




Data as of Sept.15, 2023. Source: S&P Global Ratings Credit Research & Insights.

# Sovereigns

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## EM Asia: External Uncertainties Remain Significant

Global economic activity and financing conditions remain soft, but not to the point of creating financial volatility in EM Asia.

Current account balances and inflation in most economies should improve, especially if energy prices reverse their recent gains.

We still expect some governments to slash their fiscal deficits, although a return to pre-COVID fiscal performances will take longer in many cases.

### What we're watching

**Sudden capital swings. An unexpected deterioration of global financial stability, geopolitical risks, or interest-rate expectations could prompt investors to withdraw from EM Asia**, making financing conditions much harder for some.

**Even higher energy prices undermine external and fiscal metrics.** Amid the recent economic uncertainties, current account deficits could remain wide in some economies, as exports fall and fuel prices remain elevated. This could be exacerbated by higher imports into countries, governments of which subsidize energy consumption. A supply shock that raises energy prices sharply could weaken fiscal positions and weigh on external accounts.

**A sharp increase in funding costs could weaken fiscal support and economic growth.** Interest payments could rise to weaken sovereigns' fiscal positions, especially where government debt is high and nonresidents are important sources of funding. If higher financing costs also depress economic growth, it could deepen the hit to fiscal performance.

**A further rebound of energy imports can damage external accounts of some EM Asian countries.** Net external debt would weaken, where current account deficits persist or widen because of energy imports. Additionally, this deterioration could erode investor confidence, raising financing costs further. These deteriorations could damage some sovereigns' credit fundamentals.

## EM EMEA: Growing Risks As Economic Prospects Weaken

September is coming to an end with oil at $93 per barrel, stalling growth in Europe--particularly in Germany-- a hawkish Fed, a strong dollar, and lingering questions about the direction of China's economy.

For the 52 rated sovereigns in EM EMEA, higher oil prices benefit a few large exporters, mostly in the Gulf Cooperation Council (GCC), but imperil the external, fiscal, and growth performance in the upper-middle-income economies of CEE and Turkiye. Fortunately, growth outcomes are even more sensitive to natural-gas future prices, and these remain flat and considerably down from their 2022 peaks.

**Weaker external demand and global growth prospects pose risks**, and not only for the manufacturing-reliant EMEA economies such as the Czech Republic, Hungary, Poland, and Turkiye but also for the commodity-based economies of Africa, including South Africa. In the meantime, the U.S. economy displays relative resilience, albeit a notable expansionary fiscal position. In short, external financing conditions appear to be yet again delaying a broader re-opening of hard currency funding markets for EM sovereigns, after what had been an initially promising first quarter particularly for investment grade sovereigns in CEE.

As we discussed three months ago, there are several EM EMEA sovereigns moving ahead with difficult reforms to economic and monetary settings, but even they're facing pushback from the electorate.

## What we're watching

**While the recent rise in oil prices, in principal, benefits the Nigerian government's fiscal position, particularly after the naira's recent depreciation, it will also intensify the pressure on the government to reconsider its elimination of fuel subsidies.** Public-sector unions have held a series of strikes against these reforms, which the government has replaced with more targeted income transfers. But the combination of a weaker naira and higher energy prices once again brings the cost of living crisis upfront and center for authorities.

**Turkiye is another reformist story, given a new leadership at the Ministry of Finance, Treasury, and the central bank.** The latter has now raised the key one-week repo rate by a cumulative 2,150 bps since June. However, the shift of the cost of the FX-protected deposit scheme ($123 billion or just under 13% of GDP in an FX liability) to the central bank is another burden on limited net reserves (gross FX reserves excluding reserve requirements and domestic swaps), which we estimate at $22 billion as of mid-September (versus $165.8 billion in short term external debt by remaining maturity). Authorities recognize that bringing down inflation and dollarization will require a considerable period of time and much higher rates. However, given the local elections in March 2024, political risks to the fiscal-reform mandate remain considerable.

**Given the strength of the dollar and very elevated short-term U.S. interest rates, capital inflows into EMs remain expensive and highly selective.** We have seen a few hard-currency bond deals in Turkiye (at an interest rate of 9%+) in the financial and corporate sectors, along with some inflows into local-currency government debt markets in Central Asia (mostly Kazakhstan and Uzbekistan), but very limited flows elsewhere during the third quarter of 2023.

Finally, on the Debt Service Suspension Initiative/debt forgiveness front, Zambia's restructuring deal is increasingly viewed as a one-off and was only made possible because China's president Xi Jinping stepped in to reach an agreement. Paris Club official creditors still report that China doesn't have a coordinated approach to restructuring Ghana's debt and that China's Export-Import Bank, China's commercial banks, the People's Bank, and various ministries have very diverse views on the seniority of obligations, and continue to feel that nonresident holders of domestic currency debt should also take a loss. This stance is holding up debt workouts in Suriname, Ghana, Sri Lanka, and other countries, complicating their efforts at stabilizing their economies and public finances.

## LatAm: Ongoing Resilience

**The pandemic-induced global downturn resulted in several sovereign downgrades across LatAm, but several sovereigns showed surprising resilience** despite worsening economic, health and social conditions. All sovereigns in the region now carry a higher burden of debt than in pre-pandemic years. However, LatAm economies have expanded above their pre-pandemic peak level of GDP, and the poverty rate is likely to have stabilized, if not fallen, after the recent rise. Moreover, there appears to be little long-lasting harm to the credibility of monetary policy from the recent inflationary upsurge, nor a change in policy orientation among those countries that pursue inflation-targeting monetary policy. This hard-won pillar of economic stability, which emerged during periods of high inflation across the region's many countries during the last few decades of the previous century, has endured, auguring well for future economic resilience.

**LatAm sovereigns didn't pursue as ambitious fiscal stimulus, nor for as long, as did many advanced countries.** LatAm governments typically ran smaller primary fiscal deficits than advanced countries, which, in turn, helped contain the rise in debt and inflation. Monetary policy, especially in countries with a floating exchange rate and inflation targeting, and independent central banks, managed to preserve stability.

**Central banks faced a difficult trade-off in recent times.** They could have acted forcefully to cap inflation (and keep expectations of future inflation low), sustaining long-term stability at the cost of depressing GDP growth in the near term. Or they could have loosened monetary policy preventing high interest rates from harming economic growth (and sovereigns' debt service bill)

but run the risk of more persistent and higher inflation rates and a weakening currency. This policy trade-off has become easier now thanks to falling inflation.

**Monetary policy remains an effective tool of economic policy in most of the region.** Regional central banks raised interest rates faster than many other countries, but many central banks (as in Chile, Brazil, Uruguay, and the Dominican Republic) have now started to cut them as inflation decelerates. Real interest rates are much higher in LatAm on average than in advanced countries, EM Asia, and EM EMEA, but they're declining. The combination of recession, higher inflation--and sometimes, a sharp depreciation of the currency--didn't create major problems for financial systems of most countries. The resilience of the financial sector reflects past reforms and better risk management. Unlike following the past crises, the region’s growth prospects are not constrained today by a weakened financial system.

## What we're watching

**The key challenge now is boosting long-term GDP growth.** Economic growth has picked up modestly this year in large countries like Mexico and Brazil and in some smaller countries (like Costa Rica). Moreover, the unemployment rate has dropped towards pre-pandemic levels in many countries, helping ease social problems. However, the region’s long-term growth prospects remain weak.

**Global population growth and a shift towards renewable energy could provide an opportunity for much of LatAm**, especially South America. These factors could strengthen the region's economic growth prospects thanks to favorable long-term demand for foodstuffs and key minerals like lithium, copper, and silver. LatAm’s agricultural sector can meet growing demand for food as it's more resilient than that of much of the world, thanks to abundant fertile land and water sources.

**However, commodity booms are often followed by busts, creating volatility in the long-term economic performance.** The region's history provides grounds for skepticism about the ability of countries to take full advantage of commodity booms, which often encourage populism and unsustainable fiscal and monetary policies. Nevertheless, the success of countries like Chile in managing commodity price cycles in the past four decades and achieving sound economic growth (in contrast to Argentina's economic woes during the same period) gives grounds for optimism. Carefully designed fiscal, monetary, and other policies can moderate the extreme impact of commodity price cycles and sustain stable economic performance.

**The number of LatAm countries that have maintained a healthy GDP growth rate over many years (such as Panama, the Dominican Republic, Uruguay, and Chile) is low.** Nevertheless, their success shows that appropriate economic policies, along with leadership that focuses on long-term, pro-growth policies, can make a difference. Political leadership is set to change later this year with national elections in Ecuador and Argentina, and next year in El Salvador, Panama, Mexico, the Dominican Republic, and Uruguay.

# Corporations

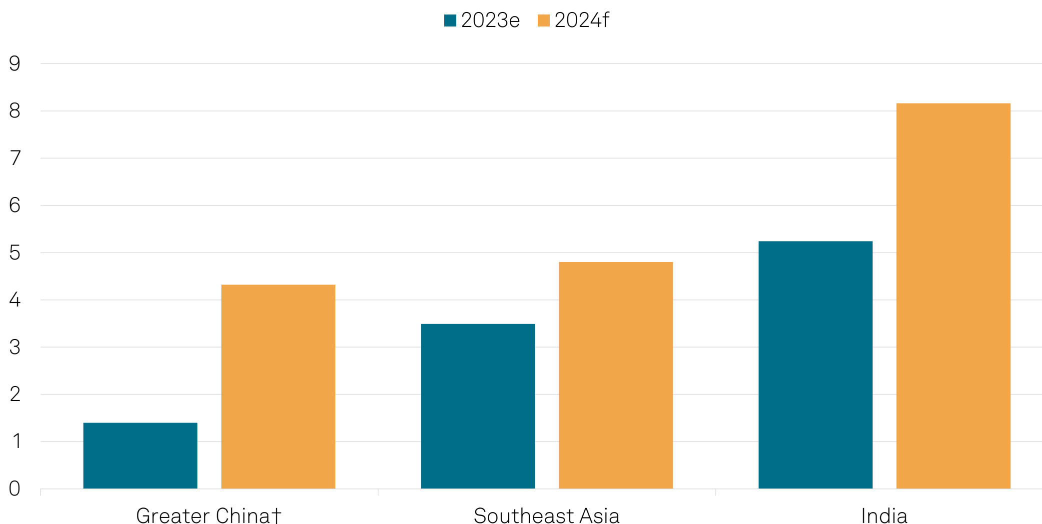
## EM Asia: Greater Macro Headwinds, Lower Consumer Confidence

**Slowing growth momentum in China and Western economies hinder operating conditions heading into 2024.** We project low- to mid-single digit revenue growth and mid-single digit profit increase across rated corporate entities in 2024. That's a sharp slowdown--nearly half of the pace--from the post COVID-19 recovery in 2022 (chart 11). The sputtering growth is more pronounced for domestically-focused sectors--physical retail, tourism, telecoms, hospitality, cyclical transport, and certain consumer products segments. We also believe that the rest of 2023 and the first half of 2024 will remain tough for exporters to Western economies in countries such as China, Vietnam, Malaysia, and Thailand, and sectors such as light manufacturing, technology, and textile. This is because of the growth slowdown or sluggish growth forecast, and increasing difficulty in passing higher prices to already stretched end customers. Operating downturns also appear more widely spread across sectors than earlier in 2023. Commodity producers in Malaysia, Indonesia, Vietnam, and China were prime benefactors of high prices in 2022. We expect earnings of these entities to dampen as prices decline across a wide range of energy, mineral and agribusiness commodities.

Chart 11

### Revenue growth remains sluggish

Median revenue growth at rated companies in selected EM Asia regions (%)




Data as of Sept. 13, 2023. †Greater China includes entities in Hong Kong and Macao. e--Estimate. f--Forecast. Source: S&P Global Ratings.

**Chinese corporations are exposed to internal contagion risk and soft external demand.** China's property sector continues to impede its economic growth and the demand for some commodities. Despite recent guidance on allowing one-year loan extensions, the government is unlikely to want to bail out the whole property sector. Although recent missed payments on a few trust products pose limited systemic risks in our opinion, the default risk is rising for local state-owned entities. At the same time, weaker growth in the U.S. and Europe is likely to continue dragging down China's exports in sectors such as automobiles and electronics. China's demand recovery will be slow with manufacturing and property sectors likely to struggle for linger in the absence of more expansive economic policies.

**India Inc. stands out.** We anticipate fairly solid earnings momentum for Indian companies in the next two years, which, if it materializes, would make for one of the healthiest four-year stretches seen in nearly a decade. Rising domestic demand and sector-specific recovery are offsetting some negative factors, including tough global economic conditions, and higher policy and

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borrowing rates. We anticipate earnings growth to come mainly from higher margins amid the following factors:

- Lower input prices--especially commodity prices;
- Increased volumes in sectors, such as automakers thanks to the easing in chip supply problems;
- Steady domestic consumption (telecom and consumer sectors); and
- The recovery in mobility.

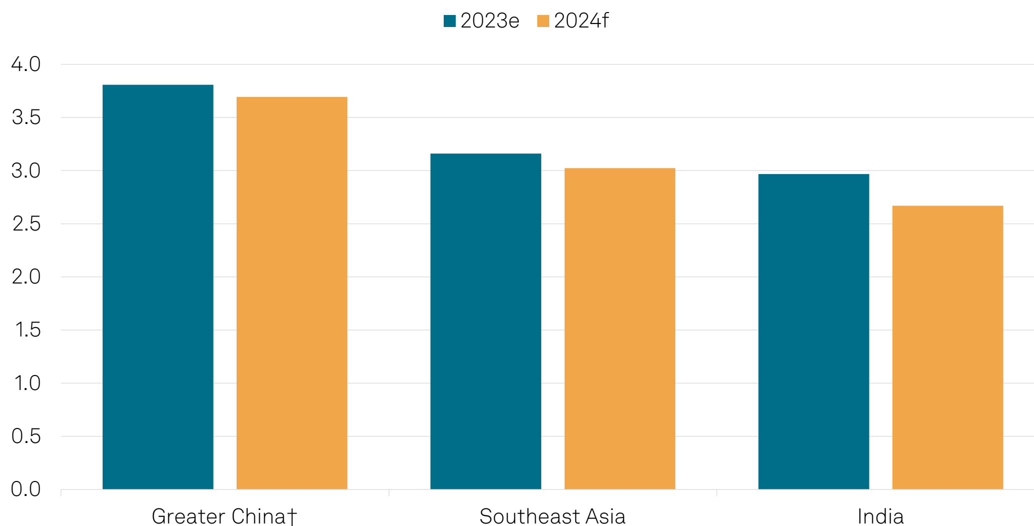
Debt reduction is likely to remain a focus for many rated companies, though its pace will slow. Financial discipline, aided by strong operating cash flows, led to significant deleveraging among Indian corporations for the past three years (chart 12).

**Funding to stay selective and a key driver of defaults.** Funding availability in EM Asian economies is likely to stay highly lopsided and selective until the second half of 2024, at the earliest, amid more challenging operating conditions and elevated interest rates. In foreign-currency markets, we believe financing windows will continue be short, more selective and expensive, and with shorter terms for issuers with a weaker credit quality. In domestic-currency markets, lending growth from domestic banks has been resilient across the region since the beginning of 2023. But as we have observed in Vietnam, Indonesia, and China, funding availability from banks remains highly exposed to sector-specific credit stress, with even domestic banks quick to reduce funding, sometimes indiscriminately, to entire sectors. Higher interest rates are slowing growth further and amplify inflation pressures in working-capital intensive sectors across the region (construction, real estate, retailing, light manufacturing, and trading) and leveraged sectors or groups of issuers regionally (REITs, some conglomerates, and state-owned enterprises).

Chart 12

Corporate deleveraging is slow in China and southeast Asia, more pronounced in India

Median debt-to-EBITDA ratio at rated companies in selected EM Asia regions (x)




Data as of Sept. 13, 2023. †Greater China includes entities in Hong Kong and Macao. e--Estimate. f--Forecast. Source: S&P Global Ratings.

## EM EMEA: Diverging Trends, Intensifying Pressures

**Turkiye: Operating conditions for companies remain challenging, while we expect exporters to perform better than domestically focused companies.**

We continue to expect overall operating conditions to remain generally difficult for most Turkish corporations catering to the domestic economy. Tighter credit conditions and higher interest

rates can trigger a slowdown in domestic demand in certain sectors, while inflation continues to create cost pressure. Higher domestic interest rates should also raise the cost of funding for Turkish corporations that fund themselves in the domestic markets. In the meantime, given tighter bank credit, companies that traditionally rely on short-term uncommitted lines for liquidity might be affected more than others.

The Turkish lira had a sharp depreciation in June, and while it has been more stable in the following two months, a potential further drop in its value could create stress, especially for companies, investments and debt obligations of which are denominated in hard currencies while their cash flows are in domestic currency. This would also generate pressure on the cost base and profit margins of importers catering to the domestic market.

Despite the relative weakness in some of Turkiye's key export markets, we expect better prospects for exporters than for domestically focused companies. The weakened lira could also increase the competitiveness of certain Turkish exports and provide support to some of the export-oriented sectors, where a large chunk of costs is in domestic currency. The tourism sector also continues to recover, posting around 16% year-over-year growth in foreign visitor arrivals in the first seven months of the year.

On a final note, while domestic credit markets are tightening, we're observing a relative increase in appetite among international investors for Turkish assets over the past few months. We have seen inflows to Turkiye's equity markets, while prices of outstanding eurobonds of blue-chip Turkish corporations also appreciated over the same period. Turkish non-financial corporations have been largely absent from eurobond markets for some time. And given the more supportive conditions for issuances recently, a select number of high-quality Turkish corporations might tap the eurobond market to secure longer-term funding over the next few months.

**Saudi Arabia: Corporations continue to operate with healthy margins**

Saudi Arabia recently announced that it will extend its voluntary oil production cuts of 1 million barrels per day, which came into effect in July 2023, until the end of the year. This cut is deeper than other OPEC+ cuts. Despite some potential hit to GDP growth, government revenue, and fiscal deficit, we haven't yet seen a slowdown to date in the Vision 2030 related investments. The latter continue to bolster corporate activity across a large set of sectors in the kingdom. Among others, investment in the real estate sector remains buoyant, particularly in Riyadh, which continues to attract Saudi nationals from other major cities and strong inflows of expatriates, while the construction sector activity also remains elevated.

The Public Investment Fund (PIF), the kingdom’s sovereign wealth fund, remains very active, establishing new entities over the past few months, including the Saudi Tourism Company (Asfar) to support the kingdom’s tourism strategy. Saudi Arabia wants to attract 100 million annual visitors (both international and domestic) by 2030, and Asfar will reportedly invest/coinvest in a number of projects across the tourism value chain. On September 3, PIF also announced an agreement to acquire 100% of shares of Saudi Iron & Steel Co. (Hadeed) from Saudi Basic Industries Corp., subject to relevant regulatory approvals (see "Saudi Basic Industries Corp.'s Steel Assets Disposal Unlikely To Affect Business Diversity And Profitability," published Sept. 5, 2023). According to PIF's press release and based on a cross-conditional share exchange agreement, Hadeed will also acquire 100% of shares of AlRajhi Steel Industries Co.

According to our report, "Saudi Arabia’s Debt Market: Ready For Takeoff", published June 19, 2023, we expect more Saudi corporations to tap debt capital markets, while we expect the kingdom’s IPO market to remain very active. As a recent example, ADES, an oil and gas drilling company backed by the PIF, is looking at floating about 30% of its shares on the Saudi Exchange, (Tadawul) in September, which will be the largest IPO in the kingdom this year to date.

**South Africa: The corporate-margin squeeze persists amid difficult operating conditions**

South African corporations' mid-year results are pointing to the financial hit from the tough operating environment. Persistent power-supply issues, constrained bulk-transportation capacity, elevated inflation and interest rates that depress household consumption, and a weak

domestic currency underpin the low growth pace. The main economic bright spot--rising private-sector investment levels--largely reflects investment in renewable off-grid electricity to cushion against the poor electricity supply from the state-owned entity, Eskom.

**The poor financial and operational performance of Eskom and transportation infrastructure provider Transnet translates into severe operational challenges for the private sector.** Electricity-supply restrictions and constrained rail volumes remain major issues, and we see no immediate resolution. Power-supply woes have the biggest impact on miners and the manufacturing industry, as renewables can't compensate fully for a lack of baseload power. For Eskom, the signing of the Debt Relief Act and the first transfer of funds under the ZAR254 billion debt relief package have ameliorated the liquidity stress. On the other hand, Transnet's operating and financial malaise, aging infrastructure, and sub-optimal maintenance, along with vandalism and limited government support, continue to eat into its liquidity capital structure.

Bulk commodity producers are suffering the most from Transnet's constrained rail capacity, while lower commodity prices, power disruptions, and inflation take a toll on miners and manufacturers. For most miners, falling commodity prices from 2022 peaks, lower-than-potential production due to load curtailment, and mining inflation of about 14% are depressing margins. Producers of other commodities such as chemicals and paper pulp are also taking a hit. The rand's weakness has blunted the margin erosion to an extent. Notably, the potential for rating impact is modest as most commodity players have deleveraged in recent years and our ratings incorporate commodity-price volatility.

For domestically focused industries such as telecoms, retail and healthcare, consumer stress and narrower margins are increasingly evident in financial results. A compression in margins largely stems from lackluster demand and inflationary cost increases that can't be fully passed through to customers (including additional costs associated with electricity self-generation).

Overall, we're seeing slight increases in leverage metrics across most industries. The exceptions are regulated utilities, while the Debt Relief Act is likely to reduce Eskom's debt to EBITDA in the coming years. Refinancing strains are also contained for most corporations, with the exception of Transnet, which has large near-term refinancing needs.

## LatAm: Headwinds ease, for now

### Corporate ratings on an improving trend as default rates are contained

We think LatAm credit conditions are moderating somewhat, with a clear improvement in the net rating bias (to about 12%). This trend includes the outlook revisions on our ratings on 10 Brazilian issuers following the same action on the sovereign rating. A few of these revisions were on companies with stand-alone credit profiles that are higher than 'bb-' but that are also capped at the sovereign rating level because of those companies' inherent exposure to operating in Brazil. While the improvement in the net rating bias is substantial given what it used to be a couple of years ago, the improved level may not necessarily capture downside risks that could pressure credit quality. The low rating bias level may be particularly misleading for evaluating the potential rating performance at the lower end of the rating spectrum.

Also, corporate defaults are still less than 1% of corporates rated in LatAm. We note that the Latin American corporate default rate highly correlates with that of the U.S.--in our view, that shows that domestic markets in Latin America are underdeveloped, such that companies are more exposed to the U.S. market. It also signals that Latin American companies, especially Brazilian issuers, have more exposure to floating-rate debt than their European counterparts, which borrow more under fixed rate schemes.

### Inflation gradually receding, but high interest rates remain

Corporate leverage remains relatively low, and cash reserves are at healthy levels to meet short-term maturities. Economies are also performing better than expected, while Latin American central banks have been successful so far at taming inflation, albeit at the cost of high policy rates. Although we think bond maturities look manageable for the remainder of 2023 and 2024,

more than half of the corporate sectors in Latin America are struggling to create value for shareholders because their pretax returns on capital are well below their borrowing costs. This is a major issue, particularly among Brazilian corporations; they have debt structures that are more exposed to interest rate volatility, and Brazil's central bank still has very high policy rates. We continue to see downside risks there, especially for Brazilian companies at the weaker end of the rating spectrum.

**Access to international markets has been improving but is still below historical averages**

International bond issuance from Latin American corporations throughout 2023 was roughly 10% above 2022 but remained 40% below the average for the 2017-2021 comparable periods as of end of August of each year. The main domestic markets also have stayed subdued. Issuance has been dominated by the investment-grade tranche, with coupons typically at about 6% for the 10-year tenors. Still, speculative-grade issuers' access to the market remains muted, with companies unwilling to take on debt at yields of, typically, 7%-12%.

Domestic issuance has also been subpar so far this year--especially in Brazil, which is by far the most active and diverse market in the region. Once again, the high Interbank Deposit Certificate (CDI) rates there and the pronounced level of risk aversion among investors lead to wider spreads. Activity picked up beginning in May as spreads started to narrow amid expectations for lower policy rates in the second half of the year. While we expect market access to improve, spreads for weaker credits won't necessarily drop as fast as they will for issuers with better credit quality. In fact, we expect that more expensive borrowing will, generally, further differentiate the spreads of weaker credits from those of stronger ones.

# Financial Institutions

## EM Asia: 2023 Credit Losses To Rise To About $450 Billion, But Still Below 2020-2021 Peaks

Credit losses in 2023 will increase 6% over the previous year. Nevertheless, we expect that credit costs will remain below those during the pandemic-hit years thanks to the resumption of economic activity and the accumulation of provisioning buffers in 2020 and 2021, which have alleviated the burden on banks this year. Several significant risks, including the potential for prolonged high interest rates and a slower-than-anticipated economic growth, heightened corporate insolvencies owing to excessive corporate debt. And unforeseen vulnerabilities in the already fragile property sector could lead to credit losses surpassing our base-case forecasts.

Table 2

EM Asian banks' credit losses (bil. US$)

| | 2019 | 2020 | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|---|---|
| China | 283.39 | 400.02 | 429.95 | 390.66 | 403.66 | 443.04 |
| India* | 35.4 | 29.04 | 21.43 | 16.71 | 20.17 | 22.45 |
| Indonesia | 7.31 | 10.77 | 9.46 | 4.41 | 8.38 | 8.14 |
| Malaysia | 0.35 | 3.56 | 1.97 | 1.01 | 1.39 | 1.27 |
| Philippines | 0.98 | 4.35 | 1.86 | 1.53 | 1.66 | 1.86 |
| Thailand | 4.45 | 6.34 | 4.82 | 4.2 | 4.59 | 5.72 |
| Vietnam | 2.44 | 3.68 | 4.64 | 5.97 | 8.94 | 10.21 |
| | | | | | | |
| **Total for top seven EM Asia** | **334.32** | **457.76** | **474.13** | **424.49** | **448.79** | **492.69** |

*Financial year ends in March. f--Forecast. Source: S&P Global Ratings.

China continues to dominate the region in terms of credit losses, but we anticipate significant variations in performance of its banks. Property-sector weakness in Tier-3 or lower-tier cities and fiscal stress in debt-laden regions are likely to raise the financial risk and regulatory scrutiny, affecting both aggressive and weaker banks.

Notwithstanding the strong industry performance, many Indian public-sector banks still carry relatively high volumes of weak assets, which will widen credit losses and hit profitability. Similarly, we expect finance companies to deliver mixed performance.

Structural issues like high household debt, and weak small and midsize enterprises (SMEs) weigh on Thai banks. Asset-quality deterioration in the Philippines should be marginal, with large corporate borrowers staying resilient. We expect credit losses in Malaysia to be the lowest in the region, since corporate and household balance sheets remain robust.

### China: Economic recovery puts banks on the road to normalization

China's reopening post-COVID, combined with targeted policy and funding support, is likely to alleviate pressure on small companies and forbearance loans, reducing weak loans to about 5.0% in 2024 from 6.5% in 2022. Challenges may persist in the real estate sector and LGFVs. We project a gradual reduction in credit costs to 1.15% of average loans in 2024 from 1.3% in 2022. Nonetheless, reported nonperforming loan (NPL) ratios will rise moderately, given the new asset classification rules in February 2023. We expect the small-business NPL ratio to peak this year at 3.3% as forbearance policies end. Policies that encourage lending to support job creation and income recovery will keep the volume of bad loans in this segment manageable.

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Sluggish property sales will continue to weigh on developers, and the NPL ratio for property development will rise to 4.7% in 2023 and 2024 before improving to 4.0% in 2025. The next few years could uncover distress in debt-laden regions. More restructuring of LGFVs' debt will dent capital and earnings of banks in these regions.

**India: Resolution of legacy weak loans and structural improvements lower credit losses**

We expect Indian banks' asset quality to improve further, with the banking sector's weak loans projected to decrease to 3.0%-3.5% of gross loans by March 31, 2025. This trend is thanks to strong economic recovery, resolution of legacy weak loans, and structural enhancements, including robust corporate balance sheets, tighter underwriting standards, and enhanced risk-management practices. We anticipate credit costs to stabilize at 1.2% for the next few years.

Table 3

## EM Asian banks' credit losses (as a percentage of total loans)

| | 2019 | 2020 | 2021 | 2022 | 2023f | 2024f |
|---|---|---|---|---|---|---|
| China | 1.28 | 1.5 | 1.41 | 1.27 | 1.19 | 1.15 |
| India* | 2.9 | 2.2 | 1.5 | 1.1 | 1.2 | 1.2 |
| Indonesia | 1.81 | 2.77 | 2.34 | 1.08 | 1.5 | 1.7 |
| Malaysia | 0.08 | 0.78 | 0.43 | 0.22 | 0.3 | 0.25 |
| Philippines | 0.5 | 2.1 | 0.91 | 0.74 | 0.7 | 0.6 |
| Thailand | 1.45 | 1.85 | 1.52 | 1.35 | 1.45 | 1.5 |
| Vietnam | 0.67 | 0.9 | 1 | 1.15 | 1.6 | 1.65 |

*Financial year ends in March. f--Forecast. Source: S&P Global Ratings.

**Vietnam: Reported NPLs and credit losses mask weaker asset quality**

Weak transparency and various forbearance measures--including restructuring of loans, the sale of bad loans to Vietnam Asset Management Company, and COVID relief deferrals--result in an understatement of NPLs and credit costs. We expect credit losses to remain at about 1.6% for the next 12-18 months as economic growth slows in 2023 to 5.5% because of waning exports to the U.S. and Europe, a high base effect, and the lagged impact of last year's monetary policy tightening.

There will be some spillover stress from the real estate sector to banks. Assuming a downside-case scenario where one-fifth of the banking sector's direct real estate and property bond exposures default, this could add about 1.7 percentage points to the NPL ratio, which was 2.8% in March 2023. Nevertheless, we expect the government's policy support to moderate the impact, including interest rate cuts, credit packages, and relaxation in bond market regulations.

**Indonesia: The lingering effect of extended pandemic-induced loan restructuring**

COVID-related loan restructuring--applicable to micro, small, and midsize enterprises and specific industries like textiles and lodging--will expire in March 2024 and cast its shadow on banks. The restructured loans, which once comprised roughly 18% of total loans in 2020, tumbled to 6.7% as of February 2023 and are likely to decline to 5%-6% by the end of 2023. We believe one-tenth to one-eighth of these loans carry the risk of turning into NPLs, potentially adding 1 percentage point to the NPL ratio. This risk could materialize in March 2024 when the moratorium expires, potentially causing NPLs to peak at 3.0%-3.5% in the same year. We expect credit costs to be 150-180 bps, down from the peak of 270 bps during the pandemic crisis in 2020, because banks have already ramped up coverage of weak loans.

## EM EMEA: Largely Resilient, With Relevant Pockets of Risk

**We expect economic growth in the GCC to slow in 2023 because of lower oil production**. However, we note the resilience of non-oil growth in Saudi Arabia and the United Arab Emirates (UAE), supporting their banking systems. In the first half of the year, lending growth has slowed in Saudi Arabia compared with the same period last year, but mortgages, and to an increasing extent, corporate lending helped banks maintain their strong performance. In the UAE, growth was faster than expected and almost evenly split between the corporate and the retail sectors. In other countries, lending growth was fairly muted and even negative for Qatar, where a new investment cycle is yet to start. In Kuwait, trade, construction, and nonbank financial institutions helped bolster the banking system.

In the first half of 2023, asset quality slipped with NPLs and coverage ratios reaching 3.4% and 163.9% at June 30, 2023--using reported data for the top 45 banks--compared with 3.3% and 168.1% at the end of 2022, respectively. We expect the weakening to continue in the second half of the year as higher interest rates and economic slowdown begin to dent the corporate performance. However, we still believe that the extent of deterioration will be limited thanks to solid lending and underwriting standards and stable amount of Stage 2 loans--10.6% for banks that reported this number--at June 30, 2023. Depending on the system, banks' cost of risk reached a cyclically low point of 0.7% in the first half of the year. But we expect to see an uptick in the second half as banks reclassify as problem loans of some corporations with thin financial margins. Overall, we expect the NPL ratios to remain below 5%, coverage to exceed 100% comfortably, and cost of risk to be about 100 bps, which we view as normal levels for the top 45 GCC banks.

Profitability soared, with average return on assets of 1.7% in the first half of 2023, which is close to the cyclical highs of 2013-2015. However, not all banking systems benefited because some had to cope with higher cost of funding, owing to the replacement of external funding sources or migration of debt instruments. That’s why margin improvement was less pronounced, and banks didn't reap the full benefit of higher rates. Banks have also refrained from pushing their borrowers to the edge of default and adopted a pragmatic approach in reflecting higher rates to their weaker clients. We believe that GCC banks will continue to post strong profitability for the remainder of the year. The trajectory for the next year will depend on central banks' decision to curtail rate increases.

The funding risk was also a prominent topic in the region, particularly for Saudi Arabia and Qatar. For the latter, it was about the change in the structure of external funding and the replacement of some of it by local sources. We note that the structure of external funding has somewhat weakened in the past 18 months, as the contribution of potentially more volatile interbank funding has increased. At the same time, the system relinquished more than $18 billion in external funding, fully replaced by local sources. Saudi Arabia's government continued to inject deposits into the system, helping banks finance their growth. The lending slowdown boosted the system's liquidity. However, because of lower oil prices, we saw a drop in government deposits with the central bank. And it remains to be seen if, at some stage, the government or government-related entities will start to withdraw their deposits from banks, potentially causing pressures to re-emerge.

The other interesting trend for Saudi Arabia is that several banks have established their sukuk programs and started to tap international capital markets. While the system overall is still in a net external asset position, a build-up of external debt could signal an increased vulnerability to global liquidity conditions. This hasn't happened yet, and it may take a bit of time to eventually reach that point. In Saudi Arabia, Qatar, the UAE, as well as Kuwait, we see authorities as highly supportive of their banking systems, and expect support to be forthcoming, if needed. The other positive rating factor is capitalization. At the end of June 2023, the average Tier 1 ratio for the top 45 banks reached 17.1% and ranged from 12.7% to 26%. GCC banks have always operated with comfortable capital buffers, and we don’t expect that to change. The access to the hybrid market for banks, which need to raise or replace instruments coming to their call dates, may narrow, although this market seems to have restarted to some extent in the developed world. We also

observed a deterioration in capital quality in Oman, given that the largest bank paid an exceptional dividend in additional Tier 1 instrument form. We view this as a one-off event. However, a recurring theme for the banks will be the likely increase in dividend as banks' profitability rises.

**The central bank of the Republic of Turkiye (CBRT) continued its monetary tightening**, as demonstrated by its latest decision to further raise its main policy rate to 30% from 25%. It also took a series of selective credit and quantitative tightening decisions and started to simplify its regulatory framework gradually. Although we view positively the ongoing policy reset, the lack of coordination between fiscal and monetary policies remains a key obstacle to control inflation. CPI started to rise in July, and we now expect year-end inflation to be closer to the upper bound of the CBRT's forecast range (62% versus the 58% expectation in its July report). The main challenge for the CBRT is to continue the shift to orthodox economic policies without creating an unintended hit to the financial sector. We still view the risk of a sudden stop to this process as a plausible scenario, especially ahead of elections. Therefore, Turkish banks remain exposed to the risk of widening economic imbalances.

Our base-case scenario assumes that the lira will further weaken amid higher interest rates in developed markets and domestic economic difficulties. Tighter financing conditions, slowing economic growth, and a weakening lira will likely erode Turkish borrowers’ creditworthiness. Such conditions will be particularly painful for domestic corporations that are highly indebted in foreign currency and with no hedging. Therefore, we currently expect banks' credit losses to edge up to about 3.5% in 2023 from 3.2% in 2022, and NPLs to remain contained at 5%-6% of total loans in 2023 after hitting a low of 2.2% at the end of 2022. That said, we acknowledge that NPL ratios in Turkiye are also influenced by many restructured loans that banks don't classify as delinquent, as well as rapid nominal credit expansion inflating the ratio’s denominator.

We see significant risks to our projections, particularly amid the ongoing monetary policy reset, a sharp depreciation of the lira, and uncertain future trajectory of real estate prices. The surge in house prices over the last few quarters has improved banks’ asset quality by increasing the valuation of real estate assets held as collateral. However, we think the risk of a sharp correction is increasing. In our view, if house prices drop steeply, it could eventually result in substantial additional credit losses for banks than currently anticipated.

We expect Turkish banks to continue accessing external funding, but at a lower extent and significantly higher cost, given currently tough market conditions. At the same time, their external debt can fall gradually over the next few years if the government is able to contain balance-of-payment risks. However, banks remain highly vulnerable to negative market sentiment and risk aversion, given their still high short-term external debt ($90.1 billion are maturing in the next 12 months if we use the June 2023 central bank data). Any policy misstep or unexpected change in the CBRT's leadership could dent banks’ access to external financing, on top of the usual geopolitical risk. Although Turkish banks have sufficient foreign currency liquidity to handle lower rollover rates, most is either with the CBRT or placed in government securities, which could reduce its availability in a highly stressed scenario. Therefore, if the rollover rate of external debt were to plummet, liquidity risk may materialize. We also see a risk that depositors might lose confidence in the banking system. We note that deposit dollarization dropped to about 42% at mid-August 2023 because of the prolongation of the protected domestic-currency deposit scheme and the regulator forcing banks to convert some of their deposits into domestic currency at the risk of incurring significant costs. Yet, with TL deposit rates falling, the challenge for authorities will be to terminate this scheme while avoiding a sharp increase of deposit dollarization.

**Infrastructure decay and lack of investment in the power sector are eroding South Africa's GDP growth.** We expect the country will record a 0.6% GDP growth in 2023. Supply-side constraints led the central bank to accelerate tightening of its monetary policy. We anticipate that credit growth will remain muted in the next three years, averaging 5%, down from 8% in 2022. We expect credit losses will rise to 1.2%-1.5% in 2023-2024, above the historical average of 0.8%. Banks are likely to record an uptick of impairments in their personal loan, vehicle asset

finance, and mortgage portfolios. We expect NPLs to increase to 5.0% in 2023 from 4.2% in 2022. Despite these shocks, we anticipate the sector will maintain risk-adjusted return on equity of 16% on average in 2023, supported by banks' diversified business model, their ability to generate a consistent share of non-interest income, and high interest rates. We also expect banks to remain well capitalized and start building additional loss-absorbing capacity in 2024. Top-tier banks hold an average of 400 bps excess capital above their minimum common equity Tier 1 ratio.

The resolution framework became effective in South Africa in June 2023 with the central bank as the sole resolution authority. The deposit insurance scheme is scheduled to be operational starting in April 2024. Details on the calibration of ALAC instruments issued by domestic systemically important banks are likely to be clarified sometime in 2023.

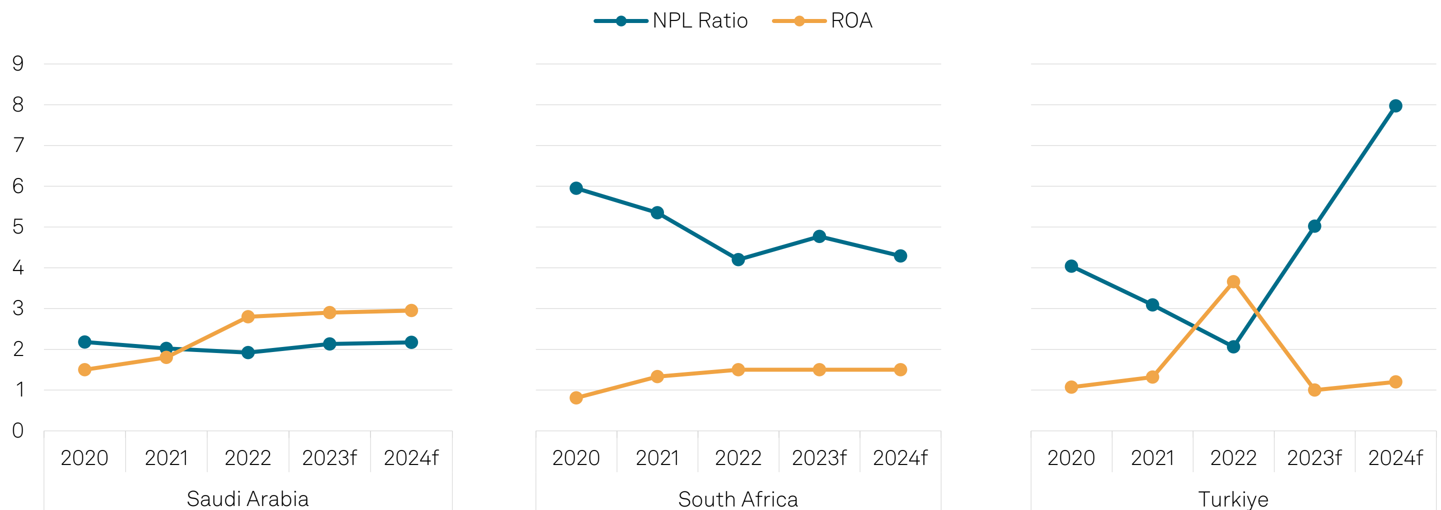
**Tunisia is reportedly still negotiating with the IMF and other financiers to mobilize resources to finance its twin deficits.** The slowness of this process and the lack of tangible results are clouding the outlook for the country's economy and overall stability. The pandemic, the war in Ukraine, and the lack of decisive reforms amid a fragmented political environment have exacerbated the country's weaknesses during the past decade. In the absence of strong economic reforms--to ease the operating environment to spur private sector and foreign direct investments and reduce government spending by refocusing the role of the state--the macroeconomic outlook remains weak. The sustainability of the banking system will also remain tied to the government's capacity to mobilize external resources to repay upcoming maturities. High unemployment, falling disposable income because of inflation, and rising funding costs are likely to further weaken the banking system, with NPLs reaching 18.2% of total loans by the end of 2024.

**Egyptian banks are facing increasing economic risks, in our view.** We anticipate their asset quality indicators to deteriorate, with the cost of risk increasing to about 170 bps in 2024 from about 120 bps in 2021, as a result of high inflation and tighter monetary policy. Over the past couple of years, Egyptian banks have increased their lending to SMEs to about 25% of total loans, and we consider SMEs to be more susceptible to higher prices and weaker economic activity. In addition, a significant portion of loans carry variable-interest rates. Banks' cost of funding is also increasing rapidly because of recurring issuance of high-yield certificates of deposit, mostly by public-sector banks, for example.

Chart 13

### Turkiye's asset quality will face severe pressure

NPLs and returns on assets (%)




NPL--Nonperforming loans. ROA--Return on assets. f--Forecast. Source: S&P Global Ratings.

## LatAm: Asset quality metrics continue to weaken because of soft economies and still high interest rates

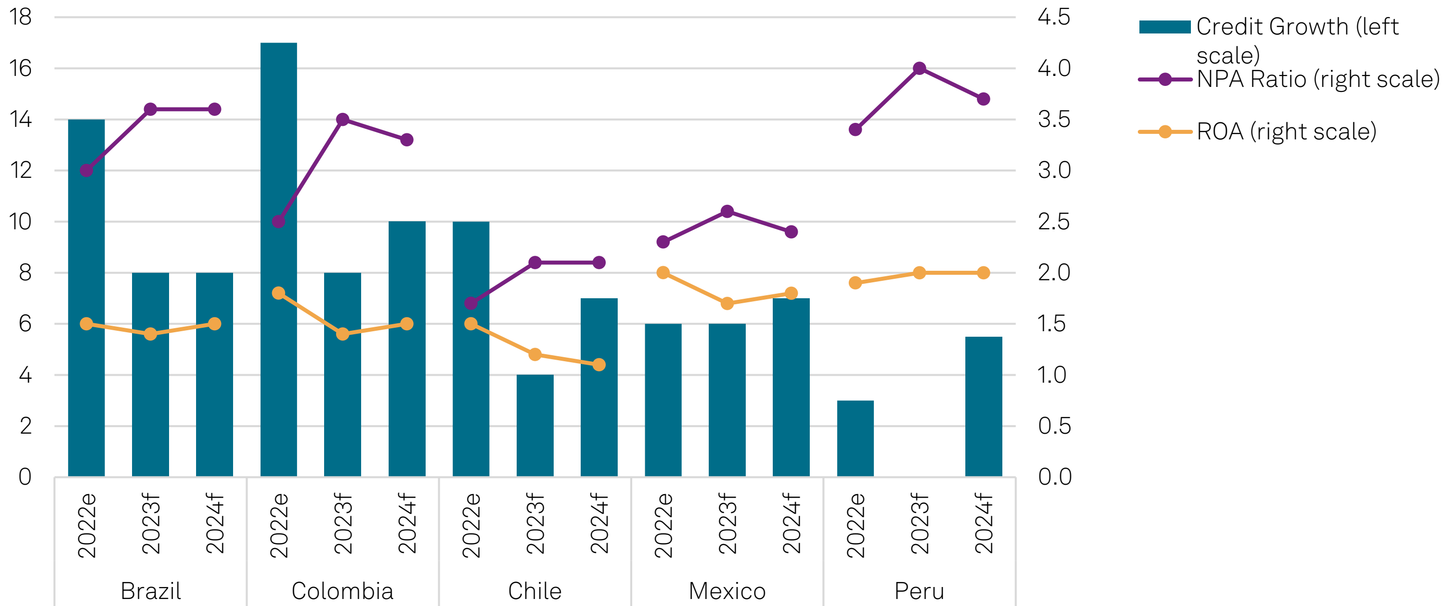
Inflation shows signs of moderation, but household disposable income remains under pressure due to high interest rates, sluggish economic conditions, and increased leverage. In some LatAm countries, such as Brazil and Chile, the central banks already have started a cycle of interest-rate cuts. However, we believe that high interest rates will persist in the region.

As a result, banks continue to implement strict underwriting standards and have been limiting the growth of retail unsecured credit. Low credit growth is further straining asset quality. On the corporate side, banks are focusing on entities with stronger credit quality, with the focus on large and midsize entities, while having less appetite for middle market, small companies, and microcredit. Overall, credit growth in this segment is also limited, and we continue to see asset quality weakening as a result. On the other hand, major banks' balance sheets remain robust with high provisioning buffers and adequate capitalization.

Profitability will likely slip, but from sound levels, because of deteriorating asset quality that will require banks to continue strengthening their provision levels, while margins are starting to stabilize. LatAm banks are used to operating in difficult operating conditions and have sound regulatory capital and liquidity levels, which we expect will help them navigate the tougher operating environment. Local regulators are typically stringent given the volatile economies, and regulation is implemented across all regulated entities.

Chart 14

LatAm asset quality weakens on sluggish economic growth (%)




NPA--Nonperforming assets. ROA--Return on assets. e--Estimate. f--Forecast. Source: S&P Global Ratings.

# Appendix: Economic Data And Forecast Summaries

Table 4

## Real GDP

(%)

| | 2022 | 2023f | 2024f | 2025f |
|---|---|---|---|---|
| Argentina | 5.0 | (3.5) | (1.0) | 2.0 |
| Brazil | 3.0 | 2.9 | 1.2 | 1.8 |
| Chile | 2.5 | 0.0 | 2.0 | 2.8 |
| Colombia | 7.3 | 1.4 | 1.9 | 2.8 |
| Mexico | 3.9 | 3.0 | 1.7 | 2.0 |
| Peru | 2.7 | 0.9 | 2.4 | 2.8 |
| China | 3.0 | 4.8 | 4.4 | 5.0 |
| India | 7.2 | 6.0 | 6.9 | 6.9 |
| Indonesia | 5.3 | 5.0 | 4.9 | 5.0 |
| Malaysia | 8.7 | 4.0 | 4.5 | 4.5 |
| Philippines | 7.6 | 5.2 | 6.1 | 6.2 |
| Thailand | 2.6 | 2.8 | 3.5 | 3.2 |
| Vietnam | 8.0 | 4.5 | 6.5 | 6.8 |
| Hungary | 4.6 | (0.3) | 2.8 | 2.8 |
| Poland | 5.5 | 0.7 | 3.0 | 2.9 |
| Saudi Arabia | 8.7 | 0.4 | 3.5 | 3.4 |
| South Africa | 1.9 | 0.8 | 1.7 | 1.7 |
| Turkiye | 5.3 | 3.5 | 2.3 | 2.9 |

f--S&P Global Ratings' forecast. Source: S&P Global Market Intelligence.

Table 5

## CPI inflation

Year average (%)

| | 2022 | 2023f | 2024f | 2025f |
|---|---|---|---|---|
| Argentina | 72.4 | 130.0 | 170.0 | 82.5 |
| Brazil | 9.3 | 4.9 | 3.9 | 3.7 |
| Chile | 11.6 | 7.6 | 3.5 | 3.1 |
| Colombia | 10.2 | 11.6 | 4.4 | 3.3 |
| Mexico | 7.9 | 5.6 | 4.2 | 3.2 |
| Peru | 7.9 | 6.6 | 3.2 | 2.3 |
| China | 2.0 | 0.6 | 2.3 | 2.3 |
| India | 6.7 | 5.5 | 4.4 | 4.6 |
| Indonesia | 4.2 | 3.8 | 3.3 | 3.3 |
| Malaysia | 3.4 | 2.8 | 2.4 | 2.4 |
| Philippines | 5.8 | 5.8 | 3.2 | 3.2 |
| Thailand | 6.1 | 1.9 | 1.4 | 1.0 |
| Vietnam | 3.2 | 3.0 | 3.1 | 3.3 |
| Hungary* | 15.3 | 17.2 | 4.7 | 3.7 |
| Poland* | 13.3 | 12.1 | 6.1 | 3.4 |
| Saudi Arabia | 2.5 | 2.5 | 2.1 | 2.0 |
| South Africa | 6.9 | 5.7 | 4.7 | 3.7 |
| Turkiye | 72.3 | 53.0 | 48.1 | 29.5 |

*Poland and Hungary data reflect HICP measure of inflation. f--S&P Global Ratings forecast. Source: S&P Global Market Intelligence.

Table 6

## Policy rates

End of period (%)

| | 2022 | 2023f | 2024f | 2025f |
|---|---|---|---|---|
| Argentina | 75.00 | 125.00 | 85.00 | 50.00 |
| Brazil | 13.75 | 12.25 | 9.00 | 9.00 |
| Chile | 11.25 | 8.50 | 5.50 | 5.50 |
| Colombia | 12.00 | 13.25 | 9.00 | 7.00 |
| Mexico | 10.50 | 11.25 | 9.25 | 7.00 |
| Peru | 7.50 | 6.75 | 4.50 | 4.00 |
| India | 6.50 | 6.50 | 5.50 | 5.25 |
| Indonesia | 5.50 | 5.75 | 4.75 | 4.50 |
| Malaysia | 2.75 | 3.00 | 2.75 | 2.75 |
| Philippines | 5.50 | 6.50 | 5.75 | 4.00 |
| Thailand | 1.25 | 2.50 | 2.00 | 1.75 |
| Hungary | 13.00 | 11.50 | 7.00 | 3.00 |
| Poland | 7.50 | 5.25 | 3.00 | 3.00 |
| Saudi Arabia | 5.00 | 6.00 | 5.00 | 3.75 |
| South Africa | 7.00 | 8.20 | 7.25 | 6.25 |
| Turkiye | 9.00 | 37.50 | 35.00 | 20.00 |

f--S&P Global Ratings' forecast. Source: S&P Global Market Intelligence.

Table 7

## Exchange rates versus US$

Year average

| | 2022f | 2023f | 2024f | 2025f |
|---|---|---|---|---|
| Argentina | 130.71 | 285.0 | 700.0 | 1,150.0 |
| Brazil | 5.17 | 5.02 | 5.10 | 5.20 |
| Chile | 873.00 | 840 | 915 | 935 |
| Colombia | 4,255 | 4,350 | 4,225 | 4,275 |
| Mexico | 20.12 | 17.84 | 18.75 | 19.25 |
| Peru | 3.83 | 3.73 | 3.80 | 3.88 |
| China | 6.73 | 7.10 | 7.16 | 7.03 |
| India | 80.36 | 82.88 | 83.33 | 84.58 |
| Indonesia | 14,852.71 | 15,268.0 | 15,400.0 | 15,427.50 |
| Malaysia | 4.40 | 4.58 | 4.40 | 4.30 |
| Philippines | 54.48 | 56.13 | 55.61 | 53.37 |
| Thailand | 35.08 | 35.02 | 35.68 | 35.45 |
| Hungary | 375.08 | 358.39 | 362.86 | 357.86 |
| Poland | 4.20 | 4.25 | 4.32 | 4.20 |
| Saudi Arabia | 3.75 | 3.75 | 3.75 | 3.75 |
| South Africa | 16.38 | 18.25 | 18.03 | 18.46 |
| Turkiye | 16.44 | 24.73 | 35.00 | 41.25 |

f--S&P Global Ratings' forecast. Source: S&P Global Market Intelligence.

Table 8

## Unemployment

Year average (%)

| | 2022 | 2023f | 2024f | 2025f |
|---|---|---|---|---|
| Argentina | 6.8 | 8.5 | 9.0 | 8.4 |
| Brazil | 9.5 | 8.4 | 9.2 | 9.0 |
| Chile | 7.8 | 8.6 | 8.2 | 7.5 |
| Colombia | 11.2 | 10.1 | 10.7 | 10.2 |
| Mexico | 3.3 | 3.0 | 3.8 | 3.5 |
| Peru | 4.4 | 4.5 | 4.5 | 4.3 |
| China | 5.5 | 5.4 | 5.3 | 5.2 |
| Indonesia | 5.8 | 5.4 | 5.3 | 5.3 |
| Malaysia | 3.8 | 3.3 | 3.2 | 3.2 |
| Philippines | 5.4 | 4.6 | 4.7 | 4.2 |
| Thailand | 1.2 | 1.0 | 0.8 | 0.8 |
| Hungary | 3.7 | 4.0 | 3.8 | 3.7 |
| Poland | 3.2 | 2.8 | 2.7 | 2.7 |
| Saudi Arabia | 5.6 | 5.2 | 4.9 | 4.4 |
| South Africa | 33.5 | 32.4 | 30.7 | 29.4 |
| Turkiye | 11.2 | 9.8 | 10.5 | 10.7 |

f--S&P Global Ratings' forecast. Source: S&P Global Market Intelligence.

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